



Director of
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ISRAEL: Resignation of Finance Minister

Finance Minister Aridor's resignation yesterday casts doubt on Prime Minister Shamir's ability to carry out additional controversial economic measures. [redacted]

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Aridor resigned during a Cabinet meeting that was called after his plan to make the US dollar legal tender in Israel was reported in the Israeli press. Opposition in the Cabinet centered on the greater economic dependence on the US that such a plan would entail. The opposition Labor Party has called for a no-confidence vote next week on the government's handling of the economy. [redacted]

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Comment: Most Israelis hold Aridor responsible for Israel's current economic disorder, and many in the government will welcome his departure. Aridor's replacement, however, will be faced with the same problems—triple-digit inflation and rising real wages—that Aridor tried to address, but with much less room for maneuver. [redacted]

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The Cabinet's decision to turn down the dollar linkage recommended by Aridor—and almost certainly approved by Shamir—will raise questions about the new Prime Minister's ability to control his coalition. It also will reinforce the widely held view that Shamir has no coherent strategy for dealing with economic problems. The disarray in the new government increases the chance of an early election next year. [redacted]

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Although Aridor's plan is now dead, demand for the US dollar will remain strong as Israelis react to the uncertain economic climate by continuing to exchange their shekels. The government will have little choice but to let the value of the shekel fall farther, which—with the price hikes announced on Tuesday—will result in a record inflation rate. [redacted]

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SOUTH KOREA: Continued Policy of Restraint

Seoul is still weighing the consequences of the bombing last Sunday in Rangoon, but it appears for now to be resisting pressure to retaliate militarily against the North Koreans.

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He told visiting Secretary of Defense Weinberger yesterday that the incident requires a calm and firm response.

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In a separate meeting, however, Defense Minister Yoon told Weinberger that the South Korean public has come to a "breaking point." He added that he and his military chiefs are trying to restrain angry subordinates who are demanding action.

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Comment: Chun faces conflicting pressures. He recognizes that rash action could jeopardize his country's long-term economic and strategic interests, particularly relations with the US. Moreover, the South Korean leader almost certainly does not want to do anything that could affect President Reagan's planned visit next month.

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Chun, however, has to take into account the views of his military supporters who are calling for strong action. In addition, dissidents will try to exploit public frustration over the bombing and the recent airliner shootdown. After the initial shock of the bombing fades, they will also seek to refocus public attention on the political difficulties the President faced this summer over a series of financial scandals.

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As long as Chun and the military leadership can retain support within the ranks for his policy of restraint, Seoul will be able to resist calls for an armed response. Nonetheless, the President will need some early, visible success in Seoul's diplomatic campaign to isolate P'yongyang in order to demonstrate the wisdom of restraint.

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Anti-INF Protest Sites

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WEST GERMANY: Major Protests Against INF

The peace movement's announced "Action Week" of nationwide protests beginning tomorrow will culminate in a demonstration in Bonn that could involve several hundred thousand people, but the government is confident it can handle the situation.

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The opposition Social Democrats and the West German Trade Union Federation have endorsed participation in "Action Week" activities so long as they remain legal and peaceful. Both groups' leaders nonetheless would prefer to keep some distance between themselves and the peace movement.

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The two groups almost certainly recognize that strong anti-INF sentiment would lead many members to participate anyway. Party and union chiefs are seeking compromises to preclude further divisions over INF.

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The government is confident it can control the demonstrations. Some officials publicly have threatened tough penalties and swift reactions, but authorities are more likely to try to avoid violence, as they did at Mutlangen early last month.

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The demonstrations are unlikely to weaken Bonn's commitment to INF deployments. Chancellor Kohl believes that his election victory in March gave him a mandate to deploy, and he has said publicly he will not be swayed by the protests.

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LEBANON: Preparatory Committee Meets

The national reconciliation preparatory committee yesterday agreed on a general agenda for the conference scheduled for next week, but cease-fire violations are again increasing as the separate committee on security matters suffered a setback.

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Most of Lebanon's factional leaders sent representatives to the committee meeting in Beirut, but former President Franjiyah and former Prime Minister Karami—both members of the Syrian-backed National Salvation Front—did not participate. There is still no agreement on a site for the reconciliation conference, now scheduled to start next Thursday.

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The security committee convened yesterday, but both Amal Shia and Druze spokesmen later said their groups would stop participating in it, alleging violations of the cease-fire arrangements.

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Lebanese Army positions at Suq al Gharb were shelled yesterday for the second consecutive day. One Lebanese soldier has been killed and five others wounded during the recent shelling.

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US Marine positions near the Beirut airport came under small arms fire yesterday. In addition, a US Marine was wounded when a hand grenade exploded near the US Embassy.

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According to press reports, PLO chief Arafat yesterday used his forces to separate warring militias battling in the port of Tripoli. The clashes between the anti-Syrian Islamic Unification Movement and pro-Syrian Communist Party militias have left more than 60 people dead.

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Comment: President Gemayel apparently set an opening date for the reconciliation conference even without an agreement on a venue in hopes of forcing Druze leader Walid Junblatt to drop his objections to a meeting at the presidential palace near Beirut.

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The Amal Shia and Druze statements appeared not to foreclose further participation in the security committee's talks. Their stance probably reflects a bid to increase the pressure on Gemayel for concessions at the reconciliation conference.

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The fighting in Tripoli does not affect the security situation in Beirut. Those clashes could escalate, however, into a confrontation between Syrian surrogates and loyalist PLO forces there.

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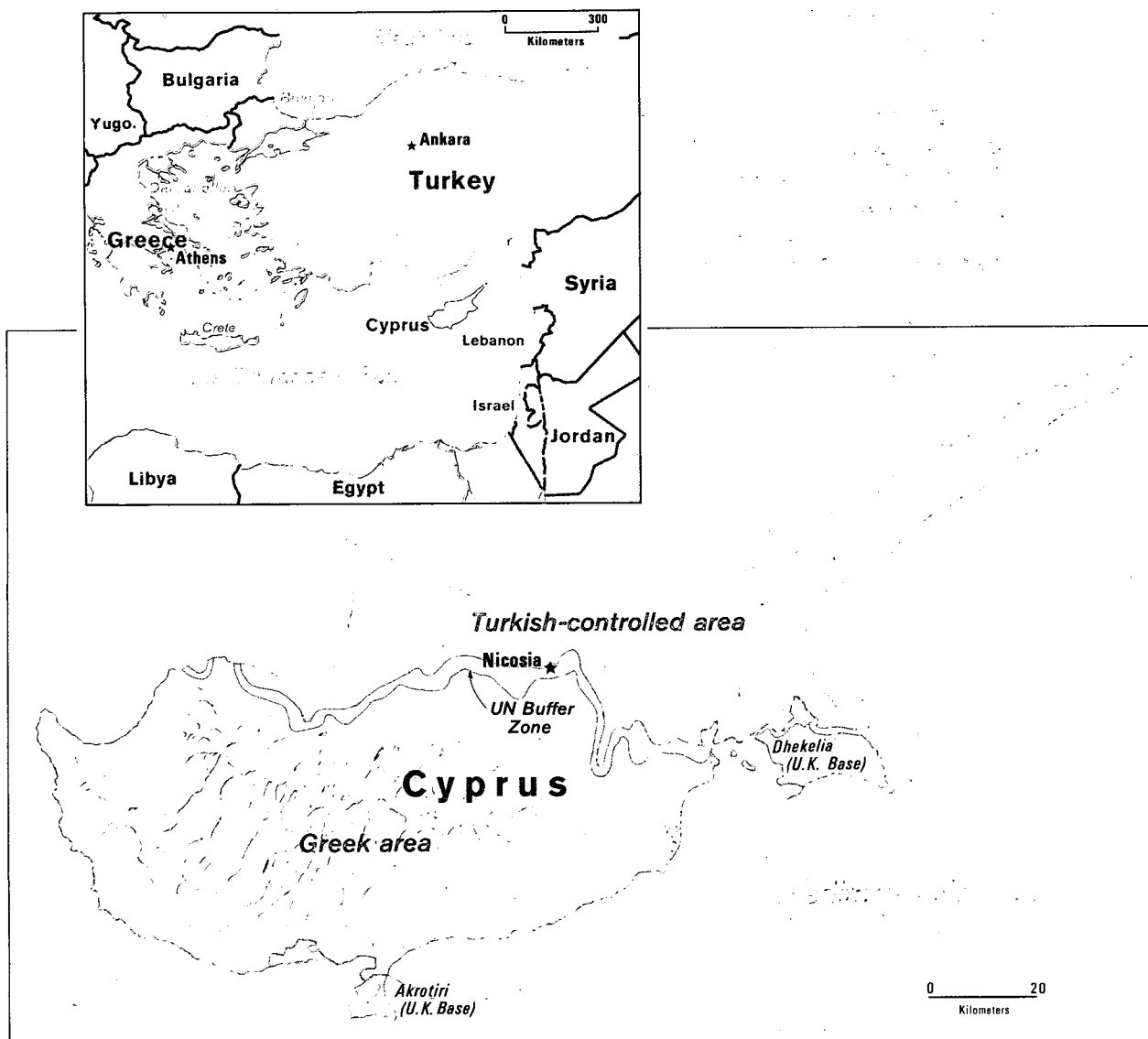
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CYPRUS: Turkish Cypriots Move Toward Independence

There are growing indications that the Turkish Cypriots are seriously considering declaring independence, a move that almost certainly would kill any hope of a negotiated settlement. [redacted]

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This week a bill proposing a separate flag for northern Cyprus was introduced in the Turkish Cypriot "Assembly." The "Assembly" is set to consider another bill, introduced in July, that would enable it to declare independence following a referendum. That bill also would provide for independence without a referendum if Turkish Cypriot leaders were to conclude a delay would be harmful to community interests. [redacted]

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The Turkish Cypriots and the Turkish Government early this month rejected UN Secretary General Perez de Cuellar's latest initiative aimed at bringing the two Cypriot communities closer to a settlement. Turkish Cypriot leader Denktash since then has threatened publicly to declare independence unless President Kyprianou agrees to a summit meeting and unless the Greek Cypriots resume negotiations under a UN plan of 1981. Denktash also has insisted that the provisional Greek Cypriot representatives at the Council of Europe relinquish their seats. [redacted]

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Comment: Denktash has often threatened to establish an independent state, but he has been especially outspoken on the issue recently. Although Ankara has restrained him in the past, there are signs that it may be reevaluating its policy. Turkey's rejection of Perez de Cuellar's recent proposals, for example, came as a surprise to UN officials, who had expected Ankara to agree. [redacted]

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In addition, the Turks have been telling US officials over the past several months that they are "losing control" of Denktash. [redacted]

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The Greeks and Greek Cypriots would consider a Turkish Cypriot declaration of independence an extreme provocation. They almost certainly would believe that the US had acquiesced in the decision. Such a belief could jeopardize the US-Greek base accord now before the parliament and could lead the Cypriots to revoke permission for the US to use facilities on Cyprus for resupplying the Multinational Force in Lebanon. [redacted]

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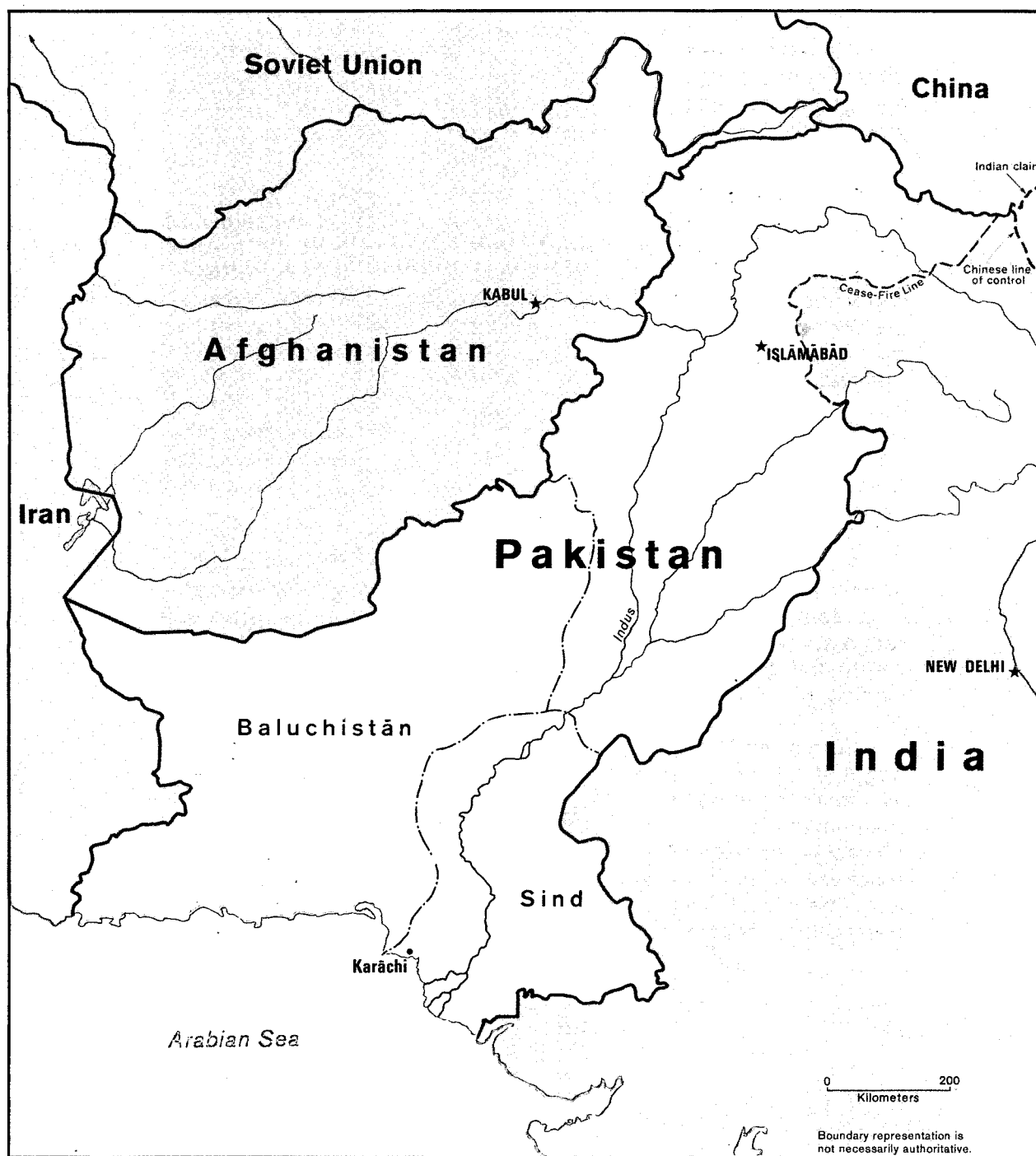
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PAKISTAN-US: Threat to US Installations

A source of the US Consulate General in Karachi says there is increased discussion within the opposition movement about action against US diplomatic posts in Pakistan. The Consulate General also reports that US flags were burned in many of the antigovernment demonstrations in Sind and Baluchistan Provinces this week.

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Comment : Many opposition leaders believe US support sustains President Zia. Some dissidents in Sind may calculate that attacks on US property would reduce US backing of Zia and undermine the martial law government by demonstrating its inability to assure order.

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CHINA: Party Plenum Sets Purge Agenda

The session of the party Central Committee that adjourned on Wednesday set guidelines for a party purge that will improve the political base of General Secretary Hu Yaobang. The meeting endorsed criteria for dismissals and recruitment for a drive scheduled to begin this winter, and it named a high-level commission chaired by Hu to oversee the effort. The criteria prohibit the physical or psychological abuses that characterized similar party campaigns under Mao Zedong. They stress ideological indoctrination and leniency for confessed misconduct.

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Comment: The plenum marks the beginning of a three-year campaign to dismiss foes of Deng Xiaoping's policies and of his personnel appointments. Some 2-4 million members are to be removed from the party rolls. The elimination of politically unreliable, corrupt, and incompetent officials will increase party support for Hu Yaobang and his reformist policies. It will be less successful in improving the party's sagging reputation among the people.

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GREECE-WESTERN EUROPE: Socialist Conference

Prime Minister Papandreou will host a conference of European Socialist leaders in Athens this weekend. The Prime Ministers of Italy, France, Spain, and Portugal are scheduled to attend. The semiofficial Athens News Agency reports that the topics of discussions will include disarmament, East-West relations, the world economy, and the dialogue with Third World countries.

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Comment: The scheduling of the conference two days before the second anniversary of the Socialists' election victory in Greece almost certainly is an attempt by Papandreou to demonstrate European Socialist support for his regime. The Prime Minister's guests, however, probably will want to avoid controversial statements, and no official communique will be released.

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ZIMBABWE-BOTSWANA: Cross-Border Operation

A 40-man Zimbabwean airmobile unit participating in sweep operations along the western border crossed into Botswana early this month to attack antigovernment dissidents, according to press reports. The unit reportedly has returned to Zimbabwe. [REDACTED]

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Comment: The Zimbabwean Army, which had been frustrated by its inability to conduct cross-border operations, believes it can eliminate the insurgent threat by denying the dissidents sanctuary in Botswana. Whether the Zimbabwean cabinet approved the incursion is not known. Botswana in the past has assured Harare that it would cooperate by preventing the use of its territory by Zimbabwean dissidents, but its Army is too small and poorly equipped to be effective. The Botswana Government probably will protest the incursion through diplomatic channels but may come under pressure from Harare to allow Zimbabwean troops a role in policing the Botswana side of the border. [REDACTED]

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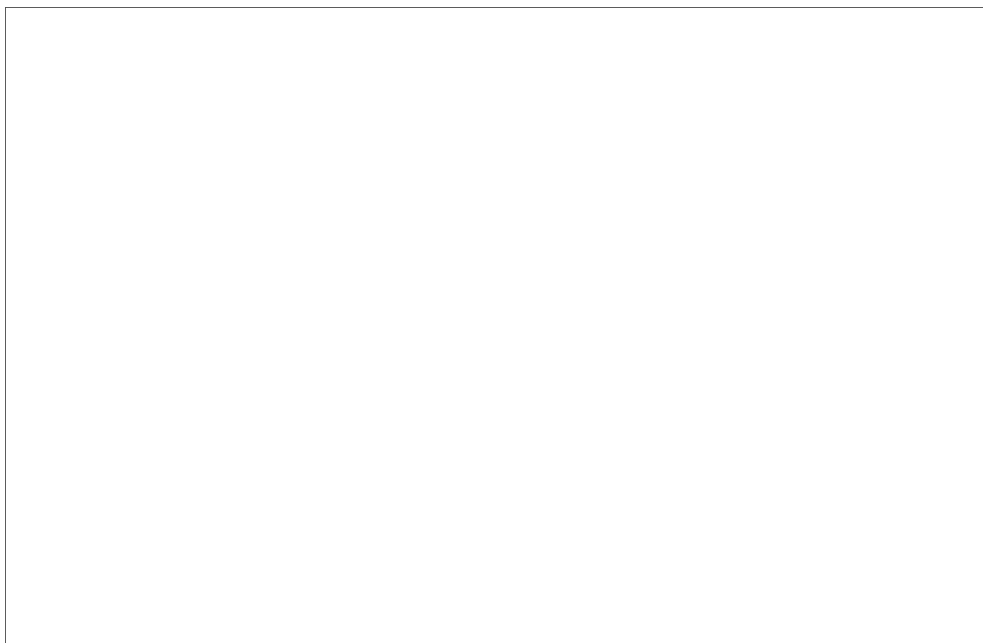
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USSR: Grain Harvest Hit by Storm

Izvestiya reported on Wednesday that a snowstorm was seriously hampering the late stages of the Soviet grain harvest in central and western Siberia and that some of the crop already had been lost. The snowstorm reportedly hit the agricultural regions, where about 2.5 million hectares of grain—2 percent of the total grain area of the USSR—remain to be cut. The affected area produces only about 2-3 million tons of grain. Soviet weather data indicate that snow accumulations were light and that temperatures during the past few days reached nearly 50 degrees Fahrenheit across the region.

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Comment: The snow probably melted quickly, keeping losses to a minimum. Even if bad weather returns and farmers are unable to complete the harvest, the impact on total Soviet grain production, estimated at 210 million tons, would be negligible.

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Special Analysis

LEBANON: Prospects for Reconciliation

The Daily today prints the key judgments of a recent Special National Intelligence Estimate, "Prospects for Lebanon."

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The prospects for a lasting political reconciliation among Lebanon's confessional factions are extremely bleak. Domestic stability in Lebanon depends upon reaching a new balance-of-power arrangement in which the interests of the country's majority Muslim population are more equitably accommodated and the security of the Christian community is assured. Progress on these political issues is essential if the cease-fire is to endure.

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Maronite Christians—particularly the Phalange Party and Lebanese Forces militia leaders—will resist changes that significantly reduce their influence in the government. Syria will urge the Muslims and the Druze to press for their maximum demands. Whenever a national reconciliation conference is held, it is most likely to stalemate and eventually break down, resulting in heightened confessional intransigence, renewed factional fighting, and a prolonged partition of Lebanon.

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Meaningful national reconciliation depends primarily on the Lebanese, and for the present they seem unwilling to make the concessions and compromises necessary for a lasting accommodation. As a consequence, the prospects of achieving a sovereign and politically stable state free from foreign occupation are virtually nonexistent.

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Instead, we can expect a weak central government which probably can maintain control over greater Beirut but which has to contend with autonomous Maronite and Druze heartlands and prolonged Syrian and Israeli occupation. The legal facade of the central government's sovereignty will continue, however, since no party favors formal partition.

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In essence, a de facto confederal or cantonal system might emerge within which many of the essential interests of most internal and external participants would be met. The weaker the authority of the central government the greater is the likelihood of its acceptability to most parties.

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This situation, while far from ideal, may well endure for an extended period. Even with continued US military support, the Gemayel government may at best gain a breathing space from

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fighting in which to begin political negotiations and arrange cosmetic deals with some Muslims. Failure to achieve real progress, however, probably will lead sooner or later to renewed fighting. [REDACTED]

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The introduction of US military power into Lebanon—symbolized by naval gunfire and substantial logistic support for the Lebanese Army defense of greater Beirut in September—has at least temporarily altered the military equation in the country. The threat of greater US, French, and possibly Israeli involvement, the credible performance of the Lebanese Army, the exhaustion of Druze forces, and the fact that Syria had obtained many of its political goals induced Damascus to shift the conflict from the military to the political level in the near term. [REDACTED]

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The Gemayel government and Christian hardliners will look to the US for support to counter Muslim and Syrian pressure for radical political change. The US will be blamed for brokering any settlement that is not responsive to Druze, Muslim, and Syrian interests. [REDACTED]

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If the Christians agree to greater Muslim influence in the political system, however, the likely result over the long term will be a more pro-Arab Lebanon that will improve its relations with Damascus and be less accommodating toward Israel. The 17 May Israeli-Lebanese Accords will be in greater jeopardy, but we believe any Lebanese government will hold the agreement in abeyance in any case. [REDACTED]

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The Gemayel government is now perceived within Lebanon and throughout the Arab world as representing narrow Christian Phalangist interests. US military support for Christian interests against Muslim and Druze actions will make it very difficult for the Egyptian and Jordanian Governments to lend further diplomatic and military support for US policies in Lebanon. Should the US become involved in a direct military confrontation with Syria, Saudi Arabia would be forced to support President Assad publicly—leaving US policy in Lebanon without Arab support. [REDACTED]

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External Factors

Syria's key goals in Lebanon are to establish a government responsive to its interests and to minimize Israeli influence in the country. Damascus will continue to support its allies and surrogates in Lebanon to weaken the government of President Gemayel and force Gemayel or his successor to reach an accommodation with Syria. Assad can use either indirect military pressure or political negotiations to keep the Army and the Lebanese Forces on the defensive. [REDACTED]

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Regardless of the outcome of talks on Lebanon's internal political configuration, Assad will not accept a Lebanese government that maintains overt ties to Israel. Damascus will continue to press Gemayel or a successor regime to abrogate the 17 May Lebanese-Israeli agreement. [REDACTED]

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Consistent with the USSR's primary aim of increasing its influence in the region, Moscow supports Syria's policies. Damascus, not Moscow, determines Syrian policy in Lebanon, but Soviet support reinforces Assad's confidence. Like Damascus, Moscow does not want a Beirut government that is aligned with Israel, or any solution to the Lebanese problem that has been brokered by the US. In addition, Moscow has a strong interest in having the US military presence in Lebanon removed or be seen as ineffective. It is also interested in frustrating broader US peace initiatives in the region that do not include Moscow, damaging the US image and undermining its credibility in the Arab world and elsewhere, and hindering the US ability to use its military might in other parts of the world. [REDACTED]

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While Soviet advisers and air defense personnel already in Syria could become involved in the event of major escalation, we do not envision direct Soviet military support to Syrian forces in Lebanon. Moscow has long made it clear to Assad that Soviet support to Syria does not obligate it to protect the Syrian presence in Lebanon. The Kremlin would prefer that the level of conflict in Lebanon remain low so that a Syrian-US or Syrian-Israeli confrontation is avoided. Moscow, however, cannot control Syrian actions that could lead to escalation of the fighting. [REDACTED]

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Israel's key goals in Lebanon are to guarantee the security of its northern border and to prevent the PLO and Syrians from establishing a presence in the south. The Israelis hope to avoid renewed military involvement north of the Awwali River, but they would respond to specific Syrian or Palestinian provocations with airstrikes or artillery and would not tolerate a Palestinian presence in the Shuf below the Damur River or a Syrian drive to Beirut. Israel would first try to intimidate Damascus, perhaps by threatening to move against Syrian forces in Lebanon, but ultimately would be prepared to move physically into the Shuf. [REDACTED]

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[REDACTED]

If the Gemayel government crumbles, Israel will look to the US to save it and will be extremely reluctant to intervene on its own. Nonetheless, a Syrian-inspired move against the Maronite heartland north of Beirut designed to cripple the Phalange would prompt Israeli intervention. [REDACTED]

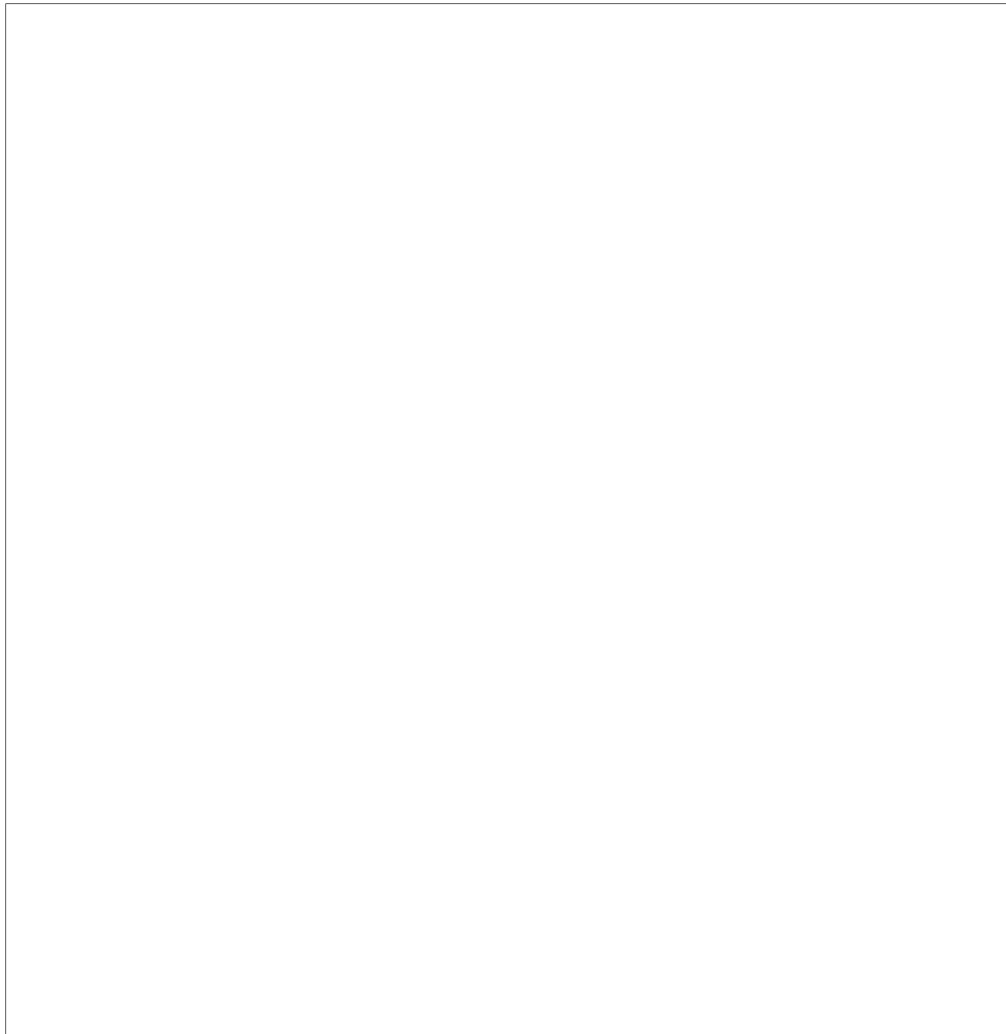
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Nonetheless, very real risks emerge from our involvement in Lebanon. For the Phalange and much of the Maronite community, the US is the latest in a series of foreign power patrons to be exploited in an effort to preserve Maronite hegemony. Deepening the American commitment to the Gemayel government may shore up central authority, but there is always the risk that it also will take the pressure off the Phalange for further concessions. [redacted]

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Moreover, US involvement will continue to offer enormous opportunities for anti-American groups of every variety. Pro-Iranian Shias, Lebanese leftists, radical Sunnis, and Palestinians will have a ready target against which to vent their frustrations and carry out their antigovernment activities. [redacted]

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